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UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

Subsidiary Body for Implementation
Forty-first session
Lima, 1–8 December 2014

Item 11(b) of the provisional agenda
Matters relating to finance
Further guidance to the Least Development Countries Fund

Information on experiences with the implementation of the remaining elements of the least developed countries work programme

Submissions by Parties and relevant organizations

1. The Conference of the Parties, at its eighteenth session, invited Parties and relevant organizations to submit to the secretariat, by 1 August 2014, information on their experiences with the implementation of the remaining elements of the least developed countries work programme, considering the options contained in the report on the twenty-first meeting of the Least Developed Countries Expert Group, for compilation by the secretariat into a miscellaneous document for consideration by the Subsidiary Body for Implementation at its forty-first session.[1]

2. The secretariat has received one such submission from a Party on 29 August 2014. In accordance with the procedure for miscellaneous documents, this submission is attached and reproduced* in the language in which it was received and without formal editing.[2]

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[1] Decision 10/CP.18, paragraph 8.

* The submission has been electronically imported in order to make it available on electronic systems, including the World Wide Web. The secretariat has made every effort to ensure the correct reproduction of the text as submitted.

[2] Also available at <www.unfccc.int/5902>.

FCCC/SBI/2014/MISC.3

GE.14-18752 (E)

1418752

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Submission by Nepal on behalf of Least Developed Countries Group on further Guidance to the Least Developed Countries Fund

Background

The Least Developed Countries Group (LDC Group) welcomes the invitation to Parties and relevant organizations to submit their views as per decision 10/CP.18 on LDC's experiences on the implementation of the remaining elements of the Least Developed Countries work programme, considering the options contained in the report on the twenty-first meeting of the Least Developed Countries Expert Group (LEG).

The LDC Group stresses that the Least Developed Country Fund (LDCF) is a unique and appropriate fund that is dedicated to support specific adaptation needs of LDCs as per decisions 7/CP.7, 27/CP.7, 28/CP.7 and 29/CP.7. Further, the Group acknowledges that Annex II Countries and other Parties in Annex I that are in a position to do so have been making voluntary financial contributions to the LDCF in accordance with decisions 8/CP.8, 3/CP.11 and 5/CP.14.

The LDC Group further acknowledges the fact that so far 51 LDCs (including the countries that have graduated from LDCs) have accessed funding of $12.2 million[1] from the LDCF for the preparation of their National Adaptation Programmes of Action (NAPAs) and 48 countries have accessed a total of $726.25 million for 138 NAPA projects to address urgent and immediate adaptation needs[2].

The LDC Group in its previous submission had expressed its concern that the implementation of the LDC work programme should not be limited to support the preparation of NAPAs alone. The LDCF should be in a position to support the full implementation of the entire LDC work programme in an effective and efficient manner.

Elements of the LDC work programme as per decision 5/CP.7:

1. Support the preparation of NAPAs;
2. Strengthening existing and establishing national climate change secretariats;
3. Provide trainings;
4. Promotion of public awareness programmes;
5. Development and transfer of technologies; and
6. Strengthening the capacity of meteorological and hydrological services.

Current status

In order to fully implement the NAPAs that have been prepared by the Least Developed Countries, it is estimated that more than US$2 billion is needed. However, as of now a total amount of US$879.8 million has been pledged to the LDCF, of which US$831.5 million have been paid[3].

Though some 138 projects have accessed funding of US$726.25 million, more funding is needed for the implementation of many medium- or full-sized projects. Therefore, funding for the full implementation of the LDC work programme, as well as formulation and implementation of the National Adaptation Plans (NAPs) should be available urgently and be different from funding for the implementation of NAPAs.

The LDC Group acknowledges the work of the GEF in preparing a user-friendly guideline for accessing resources and streamlining the project cycle. The time needed to approve the first NAPA implementation project has decreased from

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[1] GEF (2014). "*The Least Developed Countries Fund: Review of the Implementation of NAPAs*". <http://www.thegef.org/gef/sites/thegef.org/files/documents/LDCF%20Implementation%20of%20NAPA.pdf>

[2] LDCF website. http://www.thegef.org/gef/LDCF

[3] LDCF website. http://www.thegef.org/gef/LDCF

32 to 12 months and recently to 75 days. Similarly, the time between project approval and CEO endorsement has been reduced to 14 months from 17 months[4]. However, LDCs are concerned about the delay in communication between countries and the GEF Implementing Agencies.

Recommendations

i. Project cycle for NAPA implementation must be further reduced in order to address the urgent and immediate needs of LDCs.

ii. The GEF Implementing Agencies must expedite their communication with the countries to ensure a timely implementation of NAPAs and other elements of the LDC work programme.

iii. Furthermore, the LDC Group stresses that the LDCF must allow LDCs to follow a dynamic implementation of their NAPAs by supporting programmatic approaches instead of individual projects and establishing a strong national support system to ensure best results. In relation to this, the LDCF should encourage medium- or full-sized projects for LDCs to access funding for the implementation of the LDC work programme.

iv. In order to expedite the implementation of projects and also promote country ownership, the LDCF should enhance enabling activities for LDCs to be able to better access funds by using direct access modality.

v. As per the recommendation of the twenty-first meeting of the LEG, LDCF should continue to encourage projects to set aside a specific percentage of their budget and provide additional resources where needed, towards strengthening national data collection efforts beyond the specific area of the project, and also for supporting the functioning of National Climate Change Secretariat /UNFCCC Focal Point.

vi. Further, the LEG, following its twenty-first meeting, recommends the organization of enabling activities as part of a global support programme by the GEF Implementing Agencies for all LDCs with support provided to each country based on their prioritization of the elements of the LDC work programme to meet country-driven needs.

vii. Since there are various projects that are being implemented through the LDCF, the GEF should facilitate initiatives that encourage best practices and share information especially at the regional level so that countries could benefit from these valuable practical experiences.

viii. Considering the lack of resources to support the implementation of projects under the NAPAs and other elements of the LDC work programme, the GEF should take all the necessary and appropriate actions to raise awareness about the urgency for adequate and predictable resources for the LDCF.

ix. Annex II countries and other Parties in Annex I that are in a position to do so should urgently provide additional funding to address the challenges and immediate needs of LDCs.

x. The GEF should seek ways to strengthen collaboration with the GCF to channel resources that would enable LDCs to finance the remaining projects under the NAPAs.

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[4] GEF (2012). *"Report of the Global Environment Facility to the Eighteenth Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change".* <http://www.thegef.org/gef/sites/thegef.org/files/documents/document/GEF%20Report%20to%20COP18.pdf>

10 November 2014

English only

UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

Subsidiary Body for Implementation
Forty-first session
Lima, 1–8 December 2014

Item 11(a) of the provisional agenda
Matters relating to finance
Second review of the Adaptation Fund

Views on the second review of the Adaptation Fund

Submissions from Parties and relevant organizations

1. The Subsidiary Body for Implementation (SBI) at its fortieth session invited Parties and observer organizations, as well as other interested international organizations, stakeholders and non-governmental organizations involved in the activities of the Adaptation Fund and multinational, regional and national implementing entities accredited by the Adaptation Fund Board, to submit to the secretariat, by 22 September 2014, further views on the second review of the Adaptation Fund.[1]

2. The secretariat has received two such submissions from Parties. In accordance with the procedure for miscellaneous documents, the submissions are attached and reproduced* in the language in which they were received and without formal editing.[2]

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[1] FCCC/SBI/2014/8, paragraph 125.

* These submissions have been electronically imported in order to make them available on electronic systems, including the World Wide Web. The secretariat has made every effort to ensure the correct reproduction of the texts as submitted.

[2] Also available at <www.unfccc.int/5902>.

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Paper no. 1: Bolivia (Plurinational State of) on behalf of the Group of 77 and China

Submission by Plurinational State of Bolivia on behalf of the Group of 77 and China: On Second Review of the Adaptation Fund

Annex

Proposals by Parties on possible options for consideration by the second review of the Adaptation Fund

1. Building on the views submitted and expressed before and during the fortieth session of the SBI, this note by the Co-facilitators contains possible options for consideration by the SBI at its forty-first session in accordance with the terms of reference for the second review of the Adaptation Fund contained in the annex to decision 2/CMP.9.

A. The provision of sustainable, predictable and adequate financial resources, including the potential diversification of revenue streams

Preamble

Underlining the crucial importance of the Adaptation Fund, and its status as the only fund dedicated to financing concrete adaptation projects and programmes,

Expressing deep concern about continued instability of carbon markets as a source of funds for the AF, gravely affecting the sustainability of the Fund,

Welcoming with appreciation the high ranking of the Adaptation Fund,

1. *Decides* that:

(a) The implementation of the fundraising strategy of the Fund should be considered;

(b) The Board should determine the scale of resources that needs to be mobilized on an annual basis, and future projected periods, and including the setting an annual resource target;

(c) The establishment of a regular replenishment process should be considered;

(d) The Board could consider the development of an on-going fundraising strategy to ensure that resources under the Adaptation Fund meet the needs according to projects already in the pipeline, as well as expected projects;

(e) The pipeline of projects expected from the different categories of implementing entities and the implication of the expected pipeline for resources available or required should be considered;

(f) The Board should consider the establishment of a mechanism that continuously reviews the status of projects in the pipeline against the availability of finance to ensure sustainability of implementation as one avenue to address the need for annual or bi-annual resource flows.

In terms of the diversification of revenue streams,

(a) In the light of the need to diversify sources of financing, further action is necessary to enhance and secure new revenue streams for the AF;

(b) Options for additional funding sources and alternative means of diversifying its funding sources should be exploredas a matter of priority;

(c) The implementation on the operationalization of decision 1/CMP.8 on a 2 per cent share of proceeds levied on the first international transfers of AAUs and ERUs for Article 6 projects needs to be considered;

(d) Generating resources from the carbon markets should be considered including:

(i) The allocation of 10 per cent of the carry-over units;

(ii) The consideration of a set of measures to stabilize the price of CERs including through dealing with the level of ambition through the ratification of the second commitment period of the Kyoto Protocol, and higher emission limitation commitments for developed country Parties under any new agreement under the Convention;

(iii) The application of voluntary levies on developed country Parties being to national and regional emission trading schemes such as the European Union Emissions Trading Scheme (EU-ETS).

2. Based on the annual revenue projections, a clear burden-sharing process through assessed scale of contribution from Annex B countries of the Kyoto Protocol, should be considered.

3. *Decides also* that the review should include an examination of funding sources for adaptation under the Financial Mechanism of the Convention.

4. *Recommends* that the Board should consider applying for accreditation to the Green Climate Fund, as a first step towards the channelling of financing for adaptation to developing countries as a medium- to long-term measure under the Adaptation Window of the Green Climate Fund.

B. Lessons learned from the application of the access modalities of the Adaptation Fund

5. *Notes* that the application of the country-ownership principle, the operationalization of direct access modalities, delivery of concrete results, the establishment of national implementing entities which allowed for promoting environmental and social safeguards, a focus on the most vulnerable, and exemplary transparency make the AF a good role model. *Further notes* that it would be useful to share these lessons with other adaptation financing channels.

6. In terms of access modalities, *decides* that:

(a) Targeted institutional strengthening strategies are needed to assist developing countries to accredit more national or regional implementing entities to the Adaptation Fund, to carry out adaptation projects;

(b) Challenges and obstacles facing the accreditation of national implementing entities should be addressed;

(c) limiting access by the Multilateral Implementing Entities (MIEs) while ensuring that accredited NIEs have increased and facilitated access, underlining the cost difference and time frame for implementation between national implementing entities and multilateral implementing entities;

(d) Access by SIDS though Regional Implementing Entities (RIEs) is important, while countries are in the process of obtaining accreditation for their NIEs;

(e) The accreditation process and procedures for NIEs remain challenging and should be assessed. The harmonization and rationalization of procedures, requirements, accreditation procedures and capacity building of Implementing Entities is needed, in particular at national and regional levels;

(f) The readiness programme to assist NIEs to become accredited is appreciated, and the further enhancement of the readiness of developing countries to access direct funding from the Adaptation Fund should is needed;

(g) Progress made in the accreditation of different categories of implementing entities should be considered;

(h) How access to Fund is facilitated for LDCs/SIDS should be considered.

7. With regard to the implementation of projects and programmes, the following were raised:

(a) The geographical and regional coverage of projects, including projects in the pipeline should be considered;

(b) Results achieved should be looked at, in terms of building institutional capacity in implementing projects;

(c) Social and environmental standards should be considered, in terms of how securing environmental and social standards in the implementation of projects has been taken into consideration in the arrangements with the implementing entities;

(d) A pipeline of priority projects in vulnerable sectors need to be developed, given the importance for getting projects funded in priority sectors with high vulnerability to climate change (such as health, water, agriculture and ecosystems) with plans to eventually upscale these into national, transboundary and regional programmes;

(e) A targeted financing window for small-size projects and programmes, which are invaluable for building adaptive capacity at the local level, needs to be considered by the Board.

C. The institutional linkages and relations, as appropriate, between the Adaptation Fund and other institutions

8. In general, Parties noted that it is important to enhance coherence and coordination between the AF and other sources of adaptation finance including in terms of:

(a) The relationship between the Adaptation Fund and other financial institutions under the UNFCCC and the Kyoto Protocol;

(b) Possible options for developing the role of the AF in the broader architecture for adaptation funding;

(c) Streamlining and consistency of accreditation procedures and requirements for direct access;

(d) Operational linkages between the AF and constituted bodies under the Convention including the SCF and Adaptation Committee and the TEC and CTCN Advisory Board. It was also mentioned that such bodies could support the AF Board with fund-raising strategies and the SCF could be tasked with leading an assessment on enhancing complementarity and coherence between the LDCF, SCCF, AF and the GCF and GEF.

D. The institutional arrangements for the Adaptation Fund

9. Parties noted that permanent arrangements for the trustee and secretariat should be considered. Some Parties noted that:

(a) The interim arrangements for the trustee and secretariat should be smoothly transformed into permanent institutional arrangements;

(b) Permanent institutional arrangements should be determined on the basis of an open and competitive bidding process;

(c) The cost and timeframe for each option and its legal and financial implication should be examined;

(d) A group of Parties noted that the two options presented in the Report of the Interim Arrangements (2011), for the establishment of an independent secretariat, should also be considered.

10. A group of Parties called for exploring the options for placing the AF under the Convention and/or designating it as an operating entity of the financial mechanism of the Convention

11. A group also noted that further possible operational improvements should be considered, as should how to ensure that current institutional arrangements, if extended, would not limit the growth and efficiency of the AF. It was mentioned that the extension of the interim institutional arrangements of the AFB secretariat and the trustee until the third review of the Adaptation Fund should also be considered.

Paper no. 2: Sudan on behalf of the African States

Submission by Sudan on behalf of the African Group: On the Second Review of the Adaptation Fund

AGN Approach

Since Doha, the African Group of Negotiators has advocated discussion on the adequacy, predictability and sustainability of the Fund's resources, including the potential to diversify revenue streams of the Adaptation Fund (Decision 3/CMP.8, paragraph 4 and 6). This element remains a critical component of the Second Review, and of the future of the Adaptation Fund.

Expected Outcomes of the Second Review

The African Group remains particularly concerned regarding the future and financial situation of the Adaptation Fund. The Group is extremely concerned with the diminishing resources of the Fund, which is caused by the continual fall of the price of carbon, and the dependence on the carbon credits as the main source of funding. The Group believes that the priority for the review is to address how the Fund will be financed in the short-to-long-terms.

What is at stake right now is not merely predictability but survivability. Unless the issue of diversifying the revenue stream is adequately addressed and a solution found, the Fund will remain on the verge of bankruptcy, taking into consideration that the Adaptation Fund is the only fund dedicated for concrete adaptation projects in developing countries.

As per the Doha outcome, CMP will discuss means to enhance the sustainability, adequacy and predictability of these resources, including the potential to diversify revenue streams of the Adaptation Fund; the AGN recommends that the Secretariat's Technical paper address the following elements

1. Allocation of 10 % of the carry over units for the Adaptation Fund;
2. Consideration of a set of measures to stabilize the price of CERs including through dealing with the level of mitigation ambition;
3. Stressing the importance of voluntary levies being applied to national and regional emission trading schemes, such as the EU ETS. One option is the application of 2% levy on emission trading schemes in Annex B countries. In the attempt to address the above mentioned issue, Parties decided in Doha that for the second commitment period, the Adaptation Fund shall be further augmented through a 2% share of the proceeds levied on the first international transfers of AAUs and the issuance of ERUs for Article 6 projects immediately upon the conversion to ERUs of AAUs or RMUs previously held by Parties. However, the CMP missed to request the Trustee to monetize the new share of proceeds from AAU and ERU, as to implement the decision in the course of this year. Thus, the AGN is of the view that the CMP needs to amend the Terms of Service in Lima. Nonetheless the AGN is aware of the fact that the projections by the Trustee on the monetization of the share of proceeds from ERUs of AAUs or RMUs will be not sufficient to finance few projects, not to mention to impact the financial situation of the Adaptation Fund.
4. Consideration of a replenishment process with a clear burden sharing process through assessed scale of contribution from Annex B countries of the Kyoto Protocol in accordance of Article 11 of Kyoto Protocol and other relevant articles under the Convention;
5. Consideration of other available sources used in other Funds and
6. Consideration by the Board of the Adaptation Fund regarding its relationship with the Green Climate Fund to channel financing for adaptation to developing countries as a medium to long-term measure.

Specifically in terms of the future institutional options for the Adaptation Fund, the African Group believes the following elements to ensure complementarity and coherence among adaptation finance windows could include:

1. Maintaining the status quo with consideration of new sub-window under the Adaptation Fund for institutional strengthening and capacity development of NIEs and country project pipelines;

2. Placing the AF, SCCF and LDCF under the Convention;

3. Placing the AF under Convention and its designation as an Operating Entity of the Financial Mechanism of the Convention;

4. Making AF, a specialized Institution, that channels financing for concrete and urgent adaptation projects and programmes to developing countries as a medium to long-term measure to address urgent and medium needs of developing countries

5. Assessing of transaction costs related to the AF, SCCF and LDCF managing project-based finance for the Green Climate Fund; and

6. Assessing, led by the SCF in coordination with the Adaptation Committee and in accordance with its mandate, options for enhancing complementarities and coherence between the LDCF, SCCF, AF, GCF and GEF. The AGN is clearly of the view that there should be no termination of any Funds and that there stand-alone nature must be ensured.

It is also necessary to have clarity on the scale of resources that needs to be mobilized. In addition, there should be a mechanism that continuously reviews the status of projects in the pipeline and also the availability of finance to ensure sustainability of implementation. In doing so, the Adaptation Fund Board should set-up a permanent fundraising sub-committee, which is in charge of setting annually a fundraising target and of outreach activities to raise resources for the AF.

It is the view of the African Group that to fundamentally change the institutional location and nature of the Adaptation Fund will not necessarily solve the problems that the Fund is currently facing. On the contrary, it has the potential to exacerbate the problem. By narrowing options and minimizing diversity of institutional arrangements for climate finance, we might be adversely affecting the sum of money that could be mobilized through voluntary contributions. Similarly, the African Group does not support "folding" any existing Funds under the GCF, but would rather purse complementarities and harmonized approaches among funds to deliver resources to developing countries.

Scale of Adaptation Resources: A discussion on resource needs for the Fund must be seen in the context of the overall need for adaptation finance more broadly, noting that neither the Fund or the GCF can meet the adaption needs of developing countries alone. Recent estimates tend to converge to USD 20-30 billion per year by 2030 (AfDB 2011). This implies that adaptation costs in Africa represent roughly 30% of the estimated adaptation costs for developing countries. The findings of the Africa Adaptation Gap Technical Report, the results of which show that in a below 2°C warming pathway, adaptation costs in Africa in the mid-term to long-term are estimated at US$ 35 billion per year by the 2040s and US$ 200 billion per year by the 2070s, that beyond a 3.54°C warming pathway, adaptation costs in Africa are estimated at around US$ 45–50 billion per year by the 2040s and US$ 350 billion per year by the 2070s, and that without adaptation total damages would reach 7 per cent of Africa's gross domestic product, illustrating the potential for adaptation measures to significantly reduce levels of damage.

The Future of the Adaptation Fund: The other challenge surrounding the Adaptation Fund relates to its future in the context of the following:

1. The decision by the EU to limit using the CERs to the ones issued by the LDCs, which has direct effect on the resources available for the Fund;

2. The low ambition with regards to mitigation commitments of Annex B countries for the second commitment period;

3. The decision by some Annex B countries to not to join the Second commitment period under the Kyoto Protocol;

4. The withdrawal of Canada from the Kyoto Protocol; and

5. Uncertain future of the Kyoto Protocol and the CDM. It is true that parties have adopted in Doha an amendment of the Kyoto Protocol resulting in a second commitment period. Parties also launched in Durban a process to develop a new agreement that is applicable to all parties.

In all these, the future of the Kyoto Protocol is uncertain. It will be very likely that there will not be commitment periods subsequent to the second one. This raises a question as to the future of the Adaptation Fund. Considerable efforts have been spent in putting in place the current institutional and substantive norms governing the management of adaptation finance under the Kyoto Protocol and it will not be wise to abandon it altogether after some years.